

Central Intelligence Agency



Washington, D.C. 20505

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DIRECTORATE OF INTELLIGENCE

21 March 1985

IRAN-WEST GERMANY

Summary

West Germany is Iran's principal source of civilian goods, primarily supplying heavy machinery and vehicles. Iran is upset over the huge trade deficit it is running with West Germany, but is unlikely to impose restrictions on trade. Instead, Tehran is likely to use threats to turn to other suppliers as well as steep oil discounts--reportedly as high as 20 per cent--to entice West German firms to accept barter deals. [redacted]

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Despite West Germany's strong economic ties with Iran, Bonn has permitted virtually no arms sales to Tehran since the war with Iraq began. Iran is using its position as a lucrative export market for German goods to press for sales of military equipment, especially six submarines ordered by the Shah, but never built. Bonn almost certainly will not sanction official sales, but Tehran is continuing its contacts with private West German dealers and may succeed in some grey market deals with private firms for ammunition, radars, and communications gear. Private West German firms have helped Iran complete construction of a rocket production factory begun under the Shah. We believe the factory is producing tens of thousands of RPG-7 antitank rockets annually. [redacted]

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This paper was prepared by [redacted] Office of Near Eastern and South Asian Analysis, [redacted] Office of Global Issues, and [redacted] Office of European Analysis. Comments and queries are welcome and may be directed to the Chief, Persian Gulf Division, NES, [redacted]

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Economic and Political Ties

West Germany has become the principal exporter of civilian goods to Iran since the Iranian revolution in 1979. During 1983 and 1984 Iran imported a total of almost \$5.5 billion worth of goods from West Germany, roughly 15 per cent of all Iran's imports. Heavy machinery, technology and civilian vehicles make up the bulk of imports from West Germany. [REDACTED]

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West German firms have been able to gain a large share of the Iranian market in part because Tehran has terminated virtually all trade with the US and France. West Germany also has avoided alienating Iran by refusing to sell arms to Iraq. Cultural ties also favor the Germans since several top, post-revolutionary Iranian officials--such as the late Chief Justice Beheshti and current Minister of Islamic Guidance Khademi--were educated in West Germany. [REDACTED]

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West Germany's political ties with Iran are the best of any Western European country. West German Foreign Minister Genscher's visit to Iran last year was the most significant by a West European official since the Islamic revolution in 1979. In addition to valuing Iran as a lucrative export market, West Germany believes its political and economic ties with Tehran serve larger western interests. Bonn hopes to reduce Iran's need to turn to Eastern Europe and the Soviet Union for goods and to strengthen moderate forces in Tehran. [REDACTED]

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Bonn does not condone the excesses of the Khomeini regime, however, and does not want to be closely identified with them. Therefore, we expect no major steps by West Germany to upgrade or intensify political relations any time soon. Iran, on the other hand, views its relationship with West Germany as significant evidence that Tehran is not politically isolated. Iranian moderates argue that it is important to build ties with such countries as West Germany and Japan in order to preserve Iran's independence from the superpowers. [REDACTED]

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Arms Trade

Prior to the Iranian revolution in 1979, Iran maintained a small arms trade with West Germany, primarily in the military services and construction fields. West German military sales to Iran in the 1974-79 period totalled less than \$300 million. Over 80 percent of West German military trade with Iran was in the form of technical assistance and machinery for arms manufacturing plants. Military equipment sold before 1979 consisted mainly of non-lethal items such as trucks, uniforms, and field radios. [REDACTED]

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Since the revolution, West German firms have helped Iran finish building a production plant for antitank rockets (RPG-7) begun under the Shah. An artillery and ammunition facility, on which West German firms began construction in 1975, was still not finished in 1982, the last date for which we have information. Firm figures are unavailable, but we believe the rocket production plant is producing tens of thousands of RPGs annually. Both plants are hampered by a lack of raw materials, skilled technicians, and managerial personnel. [REDACTED]

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Since 1979 West Germany has authorized only one arms deal with Tehran, the sale in 1983 of \$20 million in military communications equipment. Private arms dealers, however, have sold Tehran an estimated \$30 million worth of ammunition through grey market transactions. There is little evidence that West German firms have served as middlemen in arranging Iranian arms deals with third countries. [REDACTED]

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West German firms, hurt by the slumping global arms market, have unsuccessfully lobbied Bonn to approve more transfers to Iran as part of an overall relaxation of arms sales policy. An example is Iran's attempt to purchase six 209-class submarines from a West German firm. The contract for the submarines, which originated under the Shah's regime, was still outstanding when Khomeini took power in 1979. The new regime originally canceled the contract, but in 1982 began discussions with the firm to try to acquire the submarines. Despite Iranian threats to take legal action, the firm refuses to start construction because Bonn will not consider approving their delivery until the Iran-Iraq war ends. We believe that Bonn would accede to US requests to suspend indefinitely any future submarine deliveries. [REDACTED]

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Tehran also is pressing the West German firm, Kraftwerk Union, to continue its nuclear power project at Bushehr, about half completed at the time of the revolution. We believe, however, that Bonn will adhere to its stated intention not to allow work to resume until the Iran-Iraq war ends. [REDACTED]

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Problems

The major economic issue between the two countries is the large West German trade surplus--in 1983 and 1984 it amounted to almost \$4 billion. Iran has responded by threatening to cut imports from West Germany if Bonn does not increase purchases of Iranian oil. West Germany imported as much as 18 percent of its oil from Iran in the 1970s, but this has fallen to a current level of only 3.5 percent. Bonn has attempted to deflect Tehran's pressure by explaining that it cannot direct the purchases of West German firms. [REDACTED]

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Iran also is trying to exploit its position as a significant market for West German goods to obtain military equipment. [REDACTED]

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In addition, Tehran is trying to use its economic leverage to pressure Bonn to curb the activities of Iranian opposition groups in West Germany. In 1982 Iran closed its Embassy in Bonn for 12 days to protest West Germany's expulsion of pro-Khomeini activists charged with attacking anti-Khomeini demonstrators at the University of Mainz. Last month Iran accused West Germany of providing inadequate security following the bombing of an Iranian bank. An Iranian opposition group claimed responsibility. [REDACTED]

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Outlook

Despite Tehran's concern over its trade deficit with Bonn, Iran is likely to continue relying on West German firms for the bulk of its manufactured goods and transport vehicles. Iran will try to reduce the deficit by

approaching individual West German firms, by threatening to find other suppliers, and by offering oil barter deals involving price discounts-- reportedly as high as 20 per cent. [REDACTED]

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Iran also will continue efforts to obtain West German military equipment, probably without much success. [REDACTED]

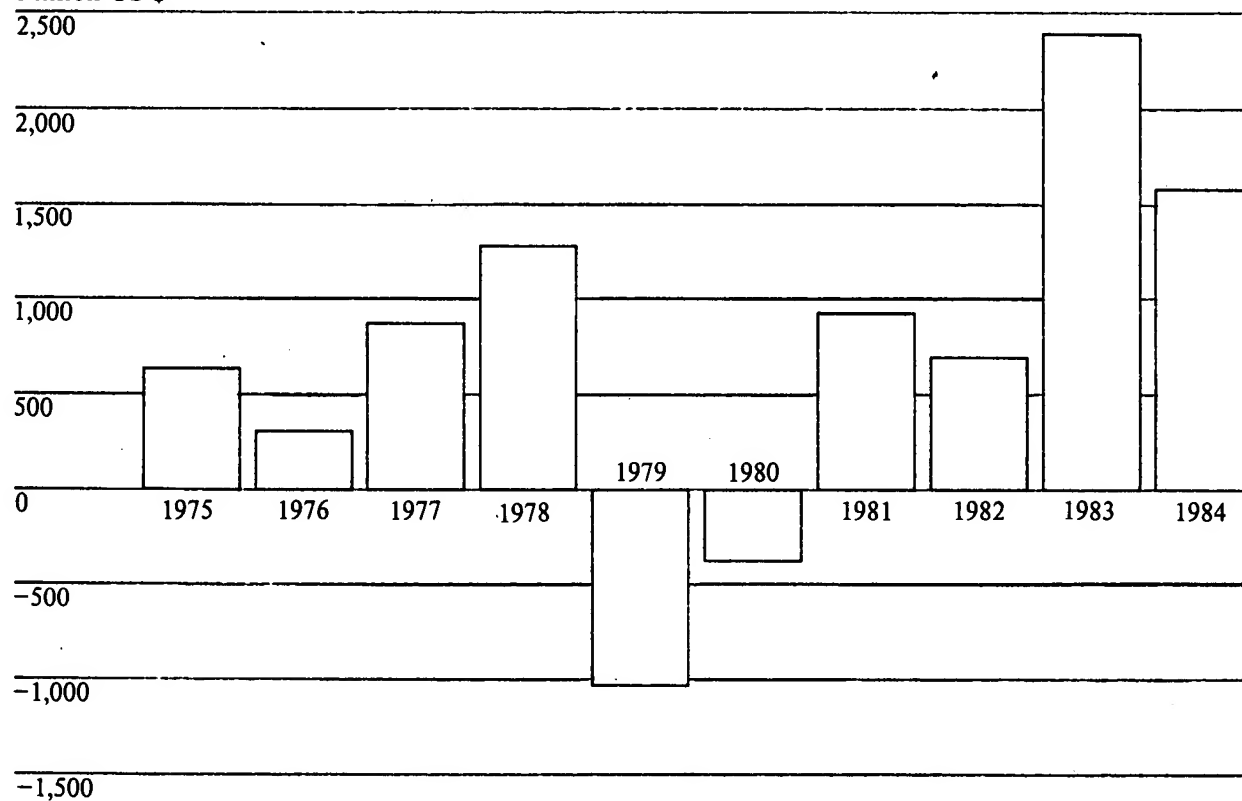
[REDACTED] West Germany has stated it will not change its opposition to any major sales while the war lasts. Iran may have some success in tapping the grey arms market and in finding West German firms willing to sell small arms, but these firms also will have problems circumventing West German restrictions. [REDACTED]

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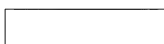
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West Germany: Trade Surplus With Iran, 1975-84

Million US \$

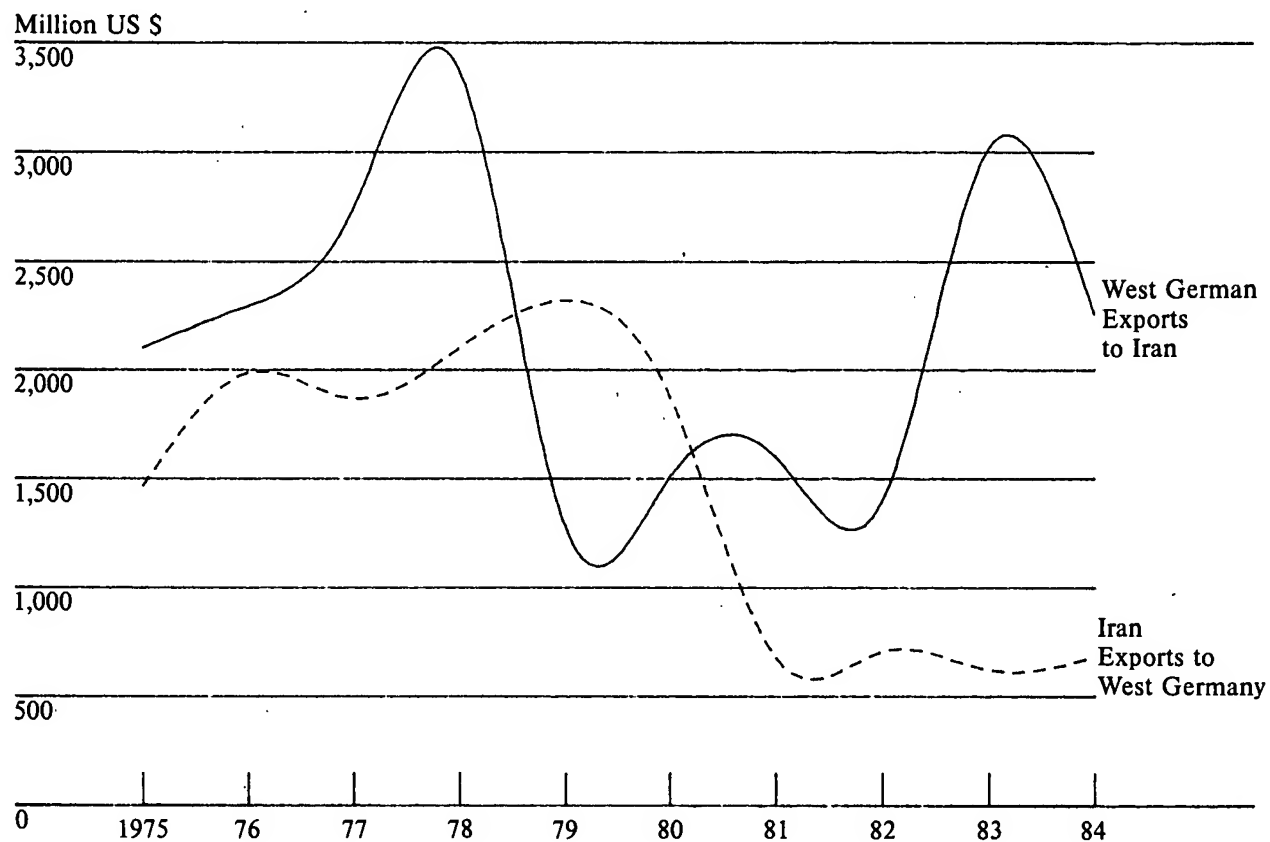


Note: West Germany ran a deficit in 1979 and 1980.



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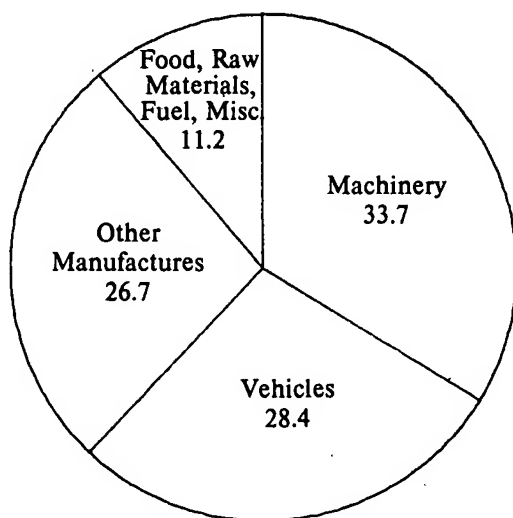
Iran: West German Trade, 1975-84



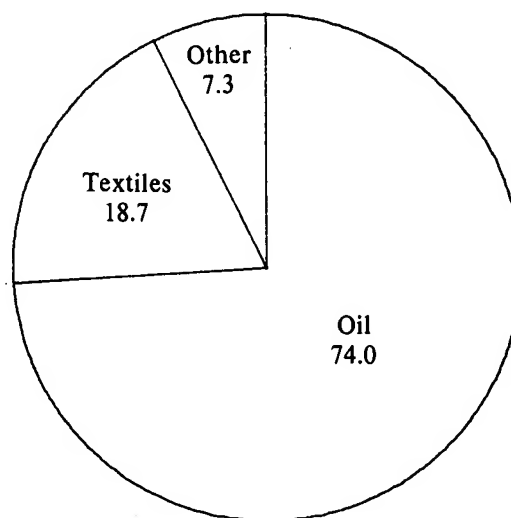
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Composition of Trade Between Iran and West Germany in 1983

West German Exports to Iran



Iranian Exports to West Germany



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